2004 Annual Report

Credit Union Central *of* Manitoba

Manitoba's Credit Unions

District 1
- Steinbach Credit Union [2 branches]

District 2
- Assiniboine Credit Union [10]

District 3
- Cambrian Credit Union [11]

District 4
- Alliance Credit Union [3]
- Belgian Credit Union [1]
- Buffalo Credit Union [2]
- Civic Credit Union [3]
- Entegra Credit Union [2]
- Me-Dian Credit Union [1]
- North Winnipeg Credit Union [1]
- Transcona Credit Union [2]
- Winnipeg Police Credit Union [1]

District 5
- Astra Credit Union [6]
- Carpathia Credit Union [3]
- Crosstown Credit Union [3]
- Vantis Credit Union [9]

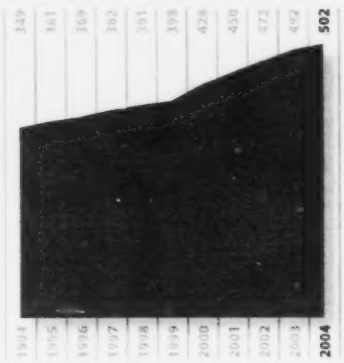
District 6
- Arborg Credit Union [2]
- Dauphin Plains Credit Union [3]
- Eriksdale Credit Union [3]
- Ethelbert Credit Union [2]
- Flin Flon Credit Union [1]
- Gimli Credit Union [2]
- Grandview Credit Union [1]
- Riverton Credit Union [1]
- Roblin Credit Union [2]
- Rorketon & District Credit Union [1]
- Ste. Rose Credit Union [1]
- Swan Valley Credit Union [2]

District 7
- Amaranth Credit Union [1]
- Austin Credit Union [4]
- Beautiful Plains Credit Union [2]
- Crocus Credit Union [2]
- Cypress River Credit Union [2]
- Erickson Credit Union [1]
- Hartney Credit Union [1]
- Minnedosa Credit Union [1]
- Portage Credit Union [3]
- Sandy Lake Credit Union [1]
- Strathclair Credit Union [4]
- Tiger Hills Credit Union [2]
- Turtle Mountain Credit Union [3]
- Virden Credit Union [4]

District 8
- Agassiz Credit Union [5]
- Altona Credit Union [2]
- Community Credit Union [3]
- Dufferin Credit Union [1]
- La Salle Credit Union [1]
- Lowe Farm Credit Union [1]
- Niverville Credit Union [2]
- Oak Bank Credit Union [2]
- Rosenort Credit Union [1]
- Sanford Credit Union [2]
- Starbuck Credit Union [2]

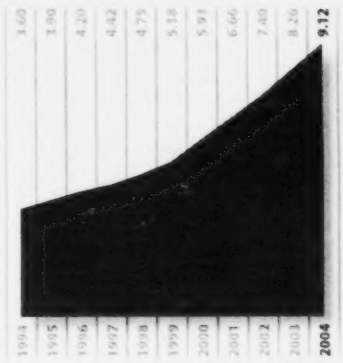
District 9
- Heartland Credit Union [3]
- South Interlake Credit Union [9]
- Vanguard Credit Union [13]
- Westoba Credit Union [18]

Memberships (thousands)



In September 2004, the number of memberships in Manitoba credit unions reached half a million. At year-end the figure was 502,184 — an increase of 9,553 over 2003. Membership in Winnipeg-based credit unions comprises 44% of the system (220,405), while 56% of memberships (281,779) belong to Manitobans living outside the provincial capital. (Manitoba's population stood at 1,162,776 after the 2003 census, with 59% of citizens living in Winnipeg.)

System Assets (billions of dollars)



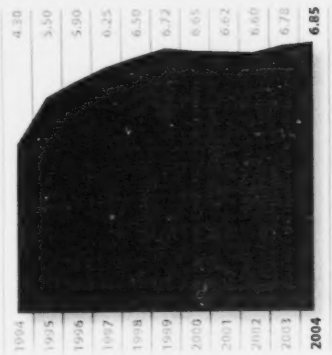
Total credit union assets stood at $9,119,846,429 on December 31, representing year-over-year growth of 10.4%. Financially, the credit union system has doubled in size in the 6½ years since Q2 1998. Among the many factors that account for this strong, steady growth is the fact that credit unions offer solid products and services and excellent interest rates on both sides of the ledger. They also respond to what Manitobans say they want and need: in the area of service delivery, for example, credit unions provide members with secure, reliable electronic access to their accounts and excellent face-to-face service.

MANITOBA CREDIT UNIONS

serve more than 100 communities throughout the province, giving Manitobans substantially better access to quality financial services and products than any other financial institution.

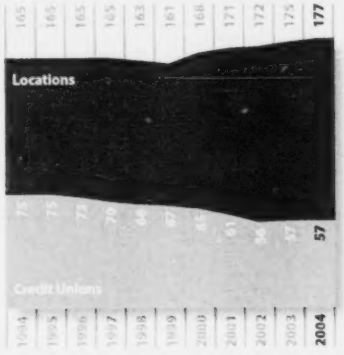
Altona • Amaranth • Angusville • Arborg • Ashern • Austin • Baldur • Beausejour • Belmont • Benito • Birds Hill • Binscarth • Birtle Boissevain • Brandon • Bruxelles • Carberry • Carman • Cartwright • Cypress River • Dauphin • Deloraine • Dominion City • Emerson Erickson • Eriksdale • Ethelbert • Flin Flon • Foxwarren • Fisher Branch • Gimli • Gilbert Plains • Gillam • Gladstone • Glenboro • Glenella Grandview • Gretna • Grunthal • Hamiota • Hartney • Headingley • Holland • Inglis • Inwood • Kenton • Killarney • Lac du Bonnet Landmark • La Riviere • La Salle • Lowe Farm • MacGregor • Manitou • Mariapolis • McAuley • Melita • Miami • Miniota • Minitonas Minnedosa • Minto • Moosehorn • Morden • Morris • Neepawa • Newdale • Ninette • Niverville • Oak Bank • Oak Bluff • Oak Lake Oak River • Oakburn • Oakville • Pilot Mound • Pinawa • Pine Falls • Pine River • Plum Coulee • Plumas • Portage la Prairie • Reston Rivers • Riverton • Roblin • Rorketon • Rosenort • Rossburn • Russell • St. Lazare • Ste. Rose du Lac • Sandy Lake • Sanford • Selkirk Shilo • Shoal Lake • Souris • Sprague • Starbuck • Steinbach • Stonewall • Strathclair • Swan Lake • Swan River • Teulon • The Pas Thompson • Treherne • Virden • Vita • Waskada • Whitemouth • Winkler • Winnipeg • Winnipeg Beach • Winnipegosis

System Equity (as a percentage of assets)



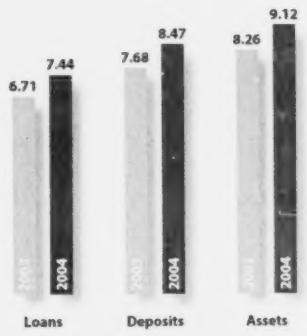
Consolidated system equity grew by $64.2 million over the course of 2004, ending the year at $624.3 million. This figure includes $543.2 million in credit union equity, $76.5 million held by the Credit Union Deposit Guarantee Corporation (CUDGC) and $4.6 million held by CUCM (whose policy is to return most earnings to its owners and retain only a small reserve). A strong equity position is a key measurement of the strength of credit unions and the entire Manitoba system. In addition to the security that comes from a strong equity position, CUDGC provides a 100% guarantee on all member deposits.

Number of Credit Unions & Locations



The number of branches in the credit union system grew by two in 2004. Strathclair Credit Union opened a branch in Newdale, a town that had been left without local full-service financial services in the early 1990s. With the move of The Second Battalion, Princess Patricia Canadian Light Infantry from Kapyong Barracks in Winnipeg to CFB Shilo (the fourth-largest training base in the country), Westoba Credit Union responded favourably to a request to consider moving into a vacated bank branch there to serve the Princess Pats' 1,430 military personnel, 440 civilian support workers and their families — a community of 2,200 in total.

Loans, Deposits, Assets (billions of dollars)



Growth in loans, deposits and assets were all in double digits again in 2004. Lending activity for the year showed a 10.8% increase over 2003, due mainly to increased commercial and consumer activity, with the agricultural sector reflecting only limited growth due to ongoing cattle (BSE) and hog issues in this sector. With an average lent-out ratio of 82%, credit unions attracted deposits by offering members and potential members highly competitive deposit rates; the impressive 10.3% growth in deposits might also indicate a certain amount of trepidation on the part of Manitoba investors to get back into the equities markets in any meaningful way.

All figures preliminary unaudited results

VISION

:: CUCM will serve Manitoba's credit unions by providing leadership and ensuring the delivery of high value products and services that help them achieve their vision.

MISSION

CUCM exists to:

:: Help Manitoba's credit unions meet their business needs

:: Assist Manitoba credit unions in providing services to their members

:: Provide trade association services for Manitoba's credit unions

:: Promote co-operative principles

VALUES

Respect for people

:: All individuals are highly valued and are treated equitably.

Integrity

:: We will be reliable in our word, honouring commitments and promises.

Excellence

:: In all we do, we are committed to the highest standards of performance, competence, and efficiency.

Service

:: We work to serve Manitoba credit unions and their members.

:: We steward the assets and affairs of the corporation for the benefit of the Manitoba credit unions.

Message from the
CHAIRMAN

This past year,

CUCM management took a number of concrete steps in moving the organization closer to meeting the aspirations of its Mission, Vision and Future State Business Model. Some of the steps, such as corporate restructuring and succession planning, had been in the planning and discussion stages at the board and management levels for some time.

It is in planning and discussion that the value of CUCM as credit unions' trade association — and the importance of the relationship between our board and management — becomes apparent. The board and management recognize that hearing from all stakeholders, considering the future from all perspectives and paying close attention to the details of all issues prior to implementing new processes or structures is of paramount importance.

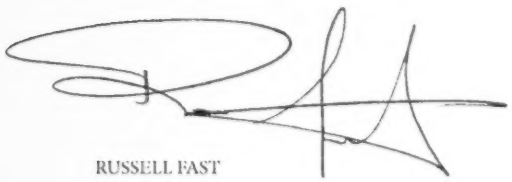
Throughout this report you will see details of some of the steps taken by management in 2004 after close examinations of CUCM's operations. In working through a governance review, the board likewise examined its own structure from the perspective of the needs of credit unions. Much of our June planning session was devoted to an overview of current issues and trends in corporate governance and a review of the key characteristics and attributes required of members of CUCM's board, with a view to succession planning.

Those key competencies, in addition to defining the skills required to represent a district, also define the skills required to represent CUCM and Manitoba credit unions within our co-operative system at the regional and national levels.

In 2004, CUCM board members represented Manitoba's interests on boards and committees of The Co-operators, CUMIS, Ethical Funds, Co-operative Trust Company of Canada (Concentra Financial), the Canadian Co-operative Association and Co-operative Development Foundation, the Manitoba Cooperative Council and the Wasagaming Foundation. Members of the board executive also participated with CUCM management in meetings with ministers of the Crown on a number of vital issues — particularly, since the beginning of the BSE crisis nearly two years ago, those dealing with agriculture. The board executive also discussed issues of common interest with executives of the Alberta and Saskatchewan central boards.

Credit unions expect a great deal of CUCM, and rightly so. To help meet those expectations, the corporation developed a principled approach to decision making and planning that includes meeting objectives with measurable results. The board strongly promoted this development; under the capable leadership of CEO Garth Manness and the executive management team, CUCM embraced it and put it into practice.

As we move into 2005 and beyond, credit unions will continue to see the benefits of CUCM's leadership, just as their own efforts will continue to produce excellent financial results and maintain the high regard in which members and nonmembers hold credit unions.



RUSSELL FAST
Chairman, Board of Directors

SECOND VICE-CHAIR

:: **Wayne McLeod** District 9

Executive Committee

Mr. McLeod has served as a member of CUCM's board since 1984 and has been CEO of Westoba Credit Union since 1970. He represents Manitoba credit unions on the boards of the Manitoba Co-operative Council and The Co-operators and serves on the Concentra Financial board. Mr. McLeod also sits on the executive committee of the Canadian Co-operative Association and is chair of its Co-operative Development Foundation.

FIRST VICE-CHAIR

:: **Alexander (Sandy) Wallace** District 8

Committees:
Executive, Level IV System Credit

Mr. Wallace, a farmer and Key Account Officer at Manitoba Hydro, has served on the Niverville Credit Union board since 1994. He was elected to CUCM's board in March 2001, becoming First Vice-Chair in 2003. Mr. Wallace is also one of two board representatives from Central on The Co-operators Regional Committee.

CHAIR

:: **Russell Fast** District 1

Executive Committee

Mr. Fast has represented this single-credit union district on CUCM's board since 1998, becoming chairman of the board in April 2001. An independent businessman and member the Steinbach Credit Union board since 1996, Mr. Fast also represents CUCM on the board of CUMIS Group.

:: **Al Morin** District 2
Committees:
Investment, Audit, Conduct Review

Mr. Morin, CEO of Assiniboine Credit Union, has served on CUCM's board since 1998. He represents Manitoba credit unions on the board of Ethical Funds and CUCM on the Concentra Financial board. Mr. Morin also sits on the Management Advisory and Manitoba Technology Advisory committees and on the Red River College board of governors.

:: **Frank Anthony Pisa** District 3
Committees:
Investment, Level IV System Credit (chair)

Mr. Pisa, the executive director of the Manitoba Speech & Hearing Association, has served on Cambrian Credit Union's board for 20 years and CUCM's since 1995. He serves on the Human Resources Advisory and Presidents' Forum Planning committees, and represents CUCM on the Manitoba Co-operative Council Distinguished Co-operator Selection Committee.

:: **Dave Abel** District 4
Committees:
Audit, Conduct Review,
Level IV System Credit

Mr. Able has served on Transcona Credit Union's board since 1985, the last nine years as President. A retired Manitoba Hydro operating centre superintendent originally from Minnedosa, he was elected to CUCM's board in 2003 and currently sits on the Human Resources Advisory Committee.

:: **Alex J. Eggie** District 6

Committees:
Audit (chair), Conduct Review (chair), Bylaws and Resolutions (chair), Investment

Mr. Eggie has served on the board of Swan Valley Credit Union since 1988 and has been president for 10 years. A farmer from Big Woody, he was elected to the CUCM board in 2000. He has served on the Manitoba Credit Union Presidents' Forum Planning Committee and chaired the ad hoc committee appointed to review voting entitlement.

:: **Glenn Karr** District 5

Committees:
Investment (chair), Level IV System Credit

An independent businessman elected to CUCM's board in 2001, Mr. Karr has served on the board of Astra Credit Union since 1998. In addition to his board and committee work, he represents CUCM on the Credit Union Bonding Committee.

:: **Norval Lee** District 7

Committees:
Audit, Conduct Review

Mr. Lee has been a member of the board of Erickson Credit Union since 1987 and its president since 1991. An Erickson-area farmer, he was elected to the CUCM board in March 2001. Mr. Lee is one of two board representatives on The Co-operators Regional Committee and serves as CUCM's representative on the board of the Wasagaming Foundation.

Message from the President and

CHIEF EXECUTIVE OFFICER

Just as Manitobans benefit from strong credit unions that are able to quickly respond to their needs, credit unions look for a strong, adaptive trade association that is able to provide them with the core and value-added services that assist them, in turn, with providing their members the financial products and services they want and need. That is the role fulfilled by Credit Union Central of Manitoba (CUCM). Credit unions also look to CUCM to advocate on their behalf within the credit union system, with partners and affiliates, and with industry associations, regulators and government at the provincial and national levels.

CUCM looks to all of its areas to fulfil its vision, which is based on the idea of bringing value through the services it delivers to credit unions. The vision can include the formation of key joint ventures and partnerships — an approach that has already resulted in the formation of Celero Solutions and, through its ownership stake in that company, Everlink. CUCM will continue to consider partnership and joint venture opportunities, as they arise, that will further add value for its owners: a business case to assess the viability of partnering with the Alberta and Saskatchewan centrals' Credit Union Payment Services will be written in 2005.

CUCM also represents Manitoba's stake in credit union nationally owned service companies — CUMIS, Credential and CUSOURCE — through Credit Union Central of Canada, where CUCM fulfills the dual role of board participation and advocacy. Of note at the national level in 2004, CUCM worked with centrals and credit unions from across the country to develop a strategy to respond to expected mergers between Canada's largest banks. The goal of the strategy is two-fold: to ensure the credit union system is prepared to meet the financial expectations of Canadian consumers and SMEs at the local, provincial and national levels if the federal government announces its intentions to proceed with bank mergers; and to prove to the federal government that credit unions are the strong national second tier financial alternative it is seeking in order to ensure high levels of financial services are in place for all Canadians before it allows any mergers.

In representing the common interests of credit unions with the provincial government, CUCM led the efforts of members of defined-benefit contribution plans and other concerned Manitobans to argue that provincial pension legislation needed to be made more equitable for all. In 2004, the government announced plans to amend pension legislation to create the flexibility that Manitoba credit unions were advocating. As a result of continued advocacy for greater opportunities to retail insurance products, which CUCM has been engaged in for a number of years, more credit unions are expected to start entering that sector in 2005.

BSE continued to be a crisis in agriculture in 2004. CUCM lending and agricultural staff worked with senior management and the board to develop an Agricultural Strategy Framework to support the system in this difficult period. Covering the broad areas of advocacy, risk management and research and education, the framework is designed to clarify the issues facing the agricultural sector and credit unions, identify and develop tools to help credit unions respond to the issues and identify how the system might be able to help industry and government work through the issues. The strategy, which will become a permanent tool CUCM will use in its advocacy efforts, also calls for the development of processes to more quickly identify emerging issues in the sector.

In October 2004, the collective assets of Manitoba credit unions reached $9 billion. By the end of the year the figure stood at $9.12 billion, representing year-over-year growth of 10.4 per cent. In September, the number of memberships in Manitoba credit unions reached 500,000. The system continued to grow in strength as well, with total system equity at 6.85 per cent of assets, up from 6.78 in 2003. The number of credit union branches also grew in 2004, ensuring broader service to Manitobans.

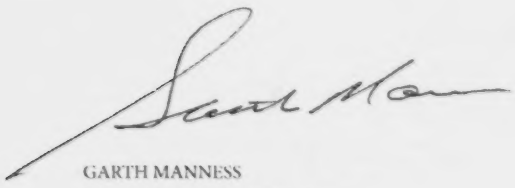
There are now 177 credit union branches in 117 communities throughout Manitoba. In 64 of them, a credit union is the only financial institution providing services to consumers and businesses.

By virtue of their co-operative ownership structures, by providing service where Manitobans say there is a need and can deliver the level of business required to support a financial institution, by providing the right mix of technology and face-to-face service they know Manitobans value, and by continuing to support important community groups and local organizations — Manitoba credit unions are making a difference in communities throughout the province.

In delivering on its value of Excellence in its commitment to the highest standards of performance, competence and efficiency, CUCM developed and announced the first phase of a corporate reorganization in 2004 that aligns congruent functions within the organization, attempts to balance work loads between staff and matches employee skills with position requirements. The goal is to develop an organization that effectively provides services on an ongoing basis, is flexible in moving to the future state business model and is supported by a succession plan for key positions and individuals in the organization.

From providing invaluable input to CUCM's reorganization, to working with management in defining the core and value-added services that will move CUCM closer to its future state business model, to fairly representing the interests of all credit unions in their deliberations, I would like to acknowledge and thank our entire board of directors — and chairman Russ Fast in particular — for their strong leadership in 2004.

I would also like to extend my appreciation to the senior management team for its commitment to the vision of CUCM and to all employees for their continued dedication to providing credit unions with excellent service throughout a year of great change and their ongoing support of our vision to bring added value to Manitoba's credit unions.



GARTH MANNESS
Chairman, Board of Directors

Garth Manness ::
President and Chief Executive Officer

Brian Peto ::
Division Manager,
Human Resources & Consulting
· Human Resources
· Business Consulting

TREASURER
Mike Safiniuk ::
Division Manager,
Finance/Administration
· Banking & Payment Services
· Treasury Services
· Controller

CORPORATE SECRETARY
Dale Ward ::
Division Manager,
Research, Communications & Marketing
· Research, Communications & Marketing
· Operations Manuals
· Printing & Supply

The hallmark of Manitoba credit unions is their ability to respond quickly to the wide variety of needs of their members.

As their trade association and provider of core and value-added services, Credit Union Central of Manitoba (CUCM) must be equally diverse and nimble in responding to the needs of credit unions. For that reason, planning — for the long-term as well as putting processes and structures in place to the able to respond to credit unions' short-term needs as they arise — is a high-priority for CUCM.

At the beginning of the 2004 planning cycle, the board and management — with input from credit unions — defined five strategic issues for CUCM: ensuring value for CUCM's assessed activities; fulfilling CUCM's value proposition; having the right people with the right skills today and tomorrow; having mutually beneficial relationships that contribute to the success of credit unions; and planning for the future. The majority of CUCM's activities in 2004 addressed one or more of these strategic issues.

Ensuring value for CUCM's assessed activities

The **Assessed Activities Project** was undertaken in 2003 to ensure value to credit unions for activities funded through the Trade, R&D, and Liquidity Management assessments. As part of the overall project, peer and indicator **benchmarks** were developed in 2004 that will be used to determine to what degree CUCM is delivering value to credit unions to carry on activities funded through the assessments. The project also recommended using CUCM's balanced scorecard financial measures as target benchmarks for assessed activities budgets and project management measures for projects. It also recommended merging the R&D assessment into trade.

CUCM is committed to providing quality products and services to its customers and recognizes that the funds assessed to support certain activities must align to the value its customers receive. CUCM needs to appropriately manage costs and is therefore focused on improving processes, ensuring that funding guidelines are adhered to and developing benchmarks.

In 2004, work was undertaken to implement the function, tools, templates and processes needed to ensure effective **program management**. A project management regime — which resides with the Program Management Office that was officially launched in the first quarter — was developed to assist in the identification of resource availability, to develop project management tools, to ensure that priority projects are managed according to accepted and approved guidelines and that they are completed on time and within budget. A project management steering committee was also established that approves overall reporting on the status of projects; it also issues change and decision requests to cross functional teams.

Process improvement may be incremental or require business re-engineering that completely changes a company's processes. Traditionally, CUCM has engaged in these efforts at the functional level, but it recognized that the ability to identify and improve processes across functions to achieve greater efficiencies would be better achieved through a more formal structure. In 2004, CUCM developed and released a guide for use by employees assigned to projects related to the improvement of company processes.

In 2004, CUCM enhanced a number of existing products and processes and developed new ones.

A new service introduced by Banking & Payment Services in early 2004 provides credit unions with an online means of dishonouring and returning electronic pre-authorized debits and direct deposits. The **Online AFT Return System** provides for the easy return of transactions with reduced work at branches and CUCM, a reduction in the risk of human error and the elimination of reliance on couriers. In a satisfaction survey taken on the product, 59 per cent of credit union respondents rated it five out-of-five and 41 per cent gave it a four.

Banking & Payment Services also worked with Everlink and Celero to support **settlement and tracing** functions for all Manitoba Shared Cash Dispensing and Interac Direct Payment transactions that were migrated to the new Everlink switch. The department also supported the pilot migration of ATMs from the Celero Manitoba switch to Everlink's and will support the completion of the migration in 2005.

PricewaterhouseCoopers conducted a **5900 Audit** of the clearing centre in late 2004 to validate that CUCM has the appropriate control structures in place to safeguard all payments data — stored cheque images, in particular. The audit report, expected to be delivered in early 2005, will be used as a basis to finalize CUCM's plans for the destruction of original member cheques after a suitable period of time. Banking & Payment Services also developed solutions to enhance its **disaster recovery** capabilities for the critical services it provides to credit unions. Implementation of the plan began in 2004 and is scheduled for completion by the end of 2005.

The task of adding all Banking & Payment Services guidelines and information to CUCM's **E-Manuals**, thus providing credit unions with a searchable reference tool that is always current, was also completed in 2004. Ninety-five per cent of all manuals content has now been converted to the Web-based electronic format. Manuals also introduced two electronic communiqués — Information Circular and CU/CP Operations Manual Release, and archived them on the E-Manuals site — to notify credit unions of updates as they are posted. In addition, a new Celero-built **search engine** was installed in 2004 that improves content searching capabilities on the E-Manuals and **cuCommunity** sites.

The switchover to **electronic distribution of communications** was completed in 2004. Over the latter half of the year, presidents, delegates and alternate delegates simultaneously received electronic and paper-based information to ease them into receiving all information electronically. The same switchover occurred with the distribution of board and committee meeting material to CUCM's board. By December 31, all paper-based CUCM communications were eliminated, with the exception of the formal AGM notice of meeting, convention and AGM booklets, district meeting notices and CUCM's annual report.

Electronic communications have not completely taken over at CUCM, though. During 2004, CUCM called two system meetings to deal with major issues and developments of importance to all credit unions. And the **2004 Manitoba's Credit Unions Annual Convention** continued a trend of presenting attendees with thought-provoking and timely topics from excellent, knowledgeable speakers: *Fast Company* magazine co-founder William Taylor, futurist Richard Worzel and Canad Inns president and CEO Leo Ledohowski.

In other areas, additional enhancements to the **Discretionary Lending Limits (DLL) Scorecard** were made that better reflect the Standards of Sound Business Practices introduced by the Credit Union Deposit Guarantee Corporation (CUDGC) in 2002. This action, combined with other facets of the scorecard — particularly the growth in credit union assets — has again led to most credit unions achieving a higher DLL.

CUCM was also busy in 2004 on the legislative and compliance fronts. In response to a recommendation from the Office of the Superintendent of Financial Institutions (OSFI), a project was undertaken that led to the adoption of a **Legislative Compliance Policy and Framework** for CUCM and the establishment of an enterprise-wide compliance regime. By the end of 2004, CUCM had identified and responded to key compliance elements defined by OSFI guidelines and four acts to which CUCM is subject — *The Credit Unions and Caisses Populaires Act* (provincial) and the *Co-operative Credit Associations Act*, The *Personal Information Protection and Electronic Documents Act* and *The Proceeds of Crime (Money Laundering) and Suppression of Terrorism Act* (federal). CUCM also complied with an OSFI requirement to revise its **Outsourcing of Business Functions Policy**.

Amendments to *The Credit Unions and Caisses Populaires Act* were passed in 2004 after a years-long consultation process that involved provincial officials, CUCM and its counterpart la Fédération des caisses populaires du Manitoba, CUDGC and its counterpart la Société d'assurance-dépôts des caisses populaires, and credit unions and caisses. Changes were made to over 60 items and 20 new ones were added. As a few examples: the *Act* now clarifies credit unions' relationships with associate members and the ability to share profits with them; tied selling and other consumer protection measures are now in line with those governing federally chartered financial institutions; the requirement for a credit union to call a general membership meeting to approve an acquisition or amalgamation no longer applies if it is acquiring a credit union that is one-tenth its size or smaller (a meeting is still required for the smaller one); and credit union member voting methods were expanded.

Fulfilling CUCM's value proposition

During the 2004–2006 planning cycle, CUCM's senior management team (with input from the Management Advisory Committee and the board) developed Central's value proposition: High Quality — Superior Service — Competitive Price. This strategic issue encompasses two earlier ones — effectively managing change and managing the impacts of I/T leaving CUCM. By effectively managing change, CUCM will improve its ability to fulfill its value proposition into the future.

Advocating on behalf of credit unions, CUCM communicated and met with key government officials on a number of issues — the challenges facing cattle and hog producers in the agricultural sector, retail insurance and pension reform among them. At the national system level, CUCM continued to work with Credit Union Central of Canada on its federal government relations program, which included work in such areas as Basel II, finance, agriculture and the *Competition Act*. CUCM also met with or participated in a number of key industry associations, including the Manitoba Chambers of Commerce, the Manitoba Business Council, the Manitoba Cattle Producer's Association, the Canadian Cattlemen's Association, Keystone Ag Producers, the Manitoba Pork Council and the Manitoba Hotel Association.

Once the financial impact of the transition of resources from the former CUCM I/T division to Celero Solutions was identified, strategies were developed to close the resulting funding gap. Projects undertaken under the umbrella of the **Celero Gap Project** included a change management process designed to identify opportunities to generate new revenues and reduce costs through process improvement and business re-engineering. New tools related to budgeting and financial reporting processes will be developed and evaluated in due course. Other efforts underway include the assessment of a new safekeeping and back-office system to enhance the investment process and the introduction of a new online survey tool that may generate new revenues and defray costs in the area of market research. On the other side of the Celero gap is Human Resources: an important focus for that department in 2004 was the development of a more effective and efficient service delivery model for **Celero HR** that will be implemented in 2005.

CUCM also updated the **Credit Union Amalgamation Guide** to reflect changes to Competition Bureau regulations and to clarify member voting rights. A number of other updates were added that were based on experience gained by CUCM and credit unions working through amalgamations.

Having the right people with the right skills today and tomorrow

Late in the year, CUCM announced the first phase of an **organizational redesign**. The goal is to develop an organization that effectively provides services today, is flexible in moving the company toward its future state business model and is supported by a succession plan for key positions and key individuals.

This strategic issue is a combination of two earlier ones — developing a full succession plan for CUCM and addressing gaps in CUCM's core competencies.

Major components of this first phase included the consolidation of project management, research and planning under a new area, Strategic Solutions. Banking & Payment Services — clearing, banking services, technology support and research & development — was spun off from Finance to become its own division. Another new division, Corporate Services, will be responsible for corporate and government relations, communications, public relations and marketing. Other changes included payroll moving to Human Resources. The structure came into effect on January 1, 2005.

This redesign aligns congruent functions in the organization, balances work loads between staff and, by matching employee skills with position requirements, places them in the organization in consideration of their individual strengths and CUCM's corporate succession plans. The ability to bridge competency gaps and ensure the right people with the right skills are in place will be developed through a **Staff Development Process**. The succession plan, a key part of the corporate restructuring project, will support both the short- and long-term needs of CUCM.

Having mutually beneficial relationships that contribute to the success of credit unions

CUCM's future state business model depicts an environment in which CUCM provides products and services, directly or indirectly — possibly through joint ventures — that meet credit union needs. In 2004, CUCM established **joint venture guiding principles** and a model joint venture business case that will be used to perform due diligence and otherwise assess potential opportunities. CUCM also developed and the board approved **joint venture ownership principles** in 2004. Where ownership is recommended to be held by CUCM the principles stipulate that, among other things, it would be on behalf of credit unions using the services and that the costs and benefits would be allocated proportionately to them alone.

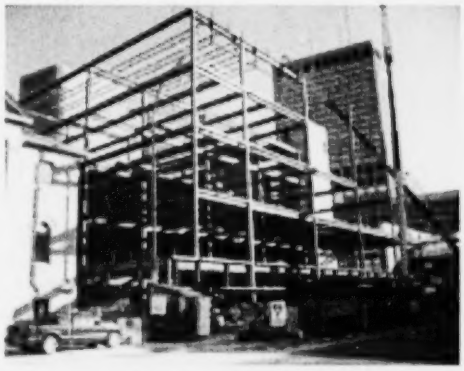
CUCM is committed to evaluating partnerships that contribute to credit unions' ongoing business success. This encompasses two earlier issues — identifying an ownership position for joint ventures and developing key triggers for the evaluation of potential alliances. Under this strategic issue, mutually beneficial relationships that contribute to the continued success of credit unions will be developed.

During 2004, a project team worked on the development of a business case on the potential of becoming a partner in **Credit Union Payment Services (CUPS)**, a joint venture payments utility owned by the Saskatchewan and Alberta centrals. A comparison between the payments services provided in each province was completed and initial assessments of

317 Donald Street

In the fall of 2005, Credit Union Central of Manitoba and Celero Solutions will move into a new building at 317 Donald Street in Winnipeg, between Ellice and Portage on the site of the old Capitol Theatre.

317 Donald is being built-to-lease to the space and technological specifications of the two companies, with future purchase options for CUCM which, with Celero, will occupy 70 per cent of the building's 90,000 square feet.



The construction site at 317 Donald Street in Winnipeg, as it appeared on November 12, 2004.

Maintaining a presence in downtown Winnipeg and a strong role in the city's business community were important considerations as CUCM moved through the process of considering its options, as CEO Garth Manness explained at a February 2004 news conference announcing the project.

"As their trade association and providers of key banking and technology services, it was very important that we reflect the same values that Manitoba's 57 credit unions reflect in over 100 communities throughout the province — that Manitoba credit unions are strong, growing and deeply committed to their communities and the member-owners who use their services."

The grand opening is scheduled for Credit Union Day 2005.

opportunities for improvement if CUCM became part of the joint venture were explored. The business case is expected to be completed in 2005, pending completion of an assessment of the TECP project's impact on all provinces.

The Canadian Payments Association (CPA) is leading an industry-wide initiative to adopt a new clearing process based on cheque images instead of the original cheques. Formally referred to as **Truncation and Electronic Cheque Presentment (TECP)**, this initiative is targeted for industry-wide implementation starting in 2007. In 2004, Central worked with CUCC and the CPA to help develop standards and plans for this major undertaking. Work with CUCM's software supplier began in 2004 and will continue into 2005 and 2006 to make the changes necessary to meet the new requirements.

CUSOURCE is a national, Web-based learning management system that gives credit union employees and directors access to a variety of learning opportunities. CUCM's board approved a request for additional funding for the CUSOURCE program, which was required to address the lag between credit unions implementing the system and staff actually enrolling in the courses. Development of proprietary content — a key ingredient to the success of CUSOURCE — also required additional resources. By the end of the year, CUSOURCE had 1,115 Manitoba students enrolled in courses, up from 523 in March.

Many CUCM representatives regularly engage in relationships with customers, suppliers, affiliates, partners and joint ventures. Understanding how relationships can be managed to maximize their effectiveness — including the dissemination of information, lead generation, issue identification and resolution, and measures of success — form the basis of the **Relationship Management Process** project that was completed in 2004.

Planning for the Future

As in past years, CUCM published spring and fall **environmental scans**. The scans examine the impacts and potential impacts of developments in the provincial, national and international financial services sectors and economies, as well as trends in areas such as technology and demographics. The scans are also the vehicle CUCM uses to report on its annual market research into Manitobans' attitudes toward credit unions and their competitors.

A comprehensive review of the external environment, the development of trends and scenario models and communication with influential partners within the industry will ensure that CUCM fulfills its vision into the future.

CUCM requires the ability to identify the drivers of change (which is partly addressed by the environmental scans), develop strategies to address change, acquire the necessary capabilities to implement the strategies — and then implement them. In 2004, CUCM developed two guides, **Predictive Modeling** and **Scenario Planning**, and will use the latter as a disciplined method to manage future uncertainties.

CUCM's **future state business model** conceptualizes the company's flexibility and agility in response to change. It sets out processes for the establishment of partnerships that provide for the direct or indirect provision of products and services to its customers. It is built around CUCM's four categories of services.

- Core Services that credit unions obtain from CUCM for regulatory or legislative reasons, or where the service is associated with membership in the trade association;
- Centralized Services that all credit unions require and choose to obtain from CUCM;
- Customized Services that credit unions may need and choose to acquire from CUCM; and
- Support Services that are required by CUCM to operate its business.

The future state business model assumes that more opportunities will arise that will change the way CUCM delivers services to credit unions. Processes related to planning for the future set out steps for evaluating the current and future needs of CUCM and credit unions, for evaluating and performing due diligence on potential partners and joint venture opportunities, and for transitioning to the new delivery systems should they be approved and adopted by credit unions.

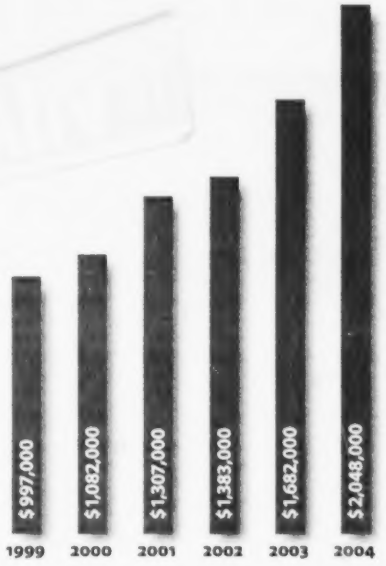
A great deal of the work described in this report is intricately linked to these processes. Planning for the future is vital to CUCM's being able to fulfil its Vision and Mission and will continue to be a focus of its activities into the future.

Credit union growth affects more than the bottom line

Manitobans in communities throughout the province are reaping the benefits of the growth and expansion of credit unions. Through their financial contributions and dedication of thousands of hours in time and energy, credit unions are making a difference by supporting local sporting and cultural activities, health and educational facilities and other community efforts.

Sponsorships have almost doubled in the five years since 1999, hitting an all-time high of $1.035 million in 2004. Donations to local and national charities were $923,000, an increase of 125 per cent since 1999. The value of scholarships and bursaries went from $47,800 to $90,000 over the same period.

Being owned and directed by members who work and live in the communities in which they operate might account for these increases. They may also have to do with the seventh International Co-operative Principle, Concern for Community, which says that, "while focusing on member needs, co-operatives work for the sustainable development of their communities through policies accepted by their members."



Total Manitoba credit union annual spending on donations, scholarships and sponsorships has doubled over the last five years.

The credit union approach to their role in communities is described further in the international vision of co-operatives: "Co-operatives are based on the values of self-help, self-responsibility, democracy, equality, equity and solidarity. In the tradition of their founders, co-operatives' members believe in the ethical values of honesty, openness, social responsibility and caring for others."

MANITOBA CREDIT UNIONS

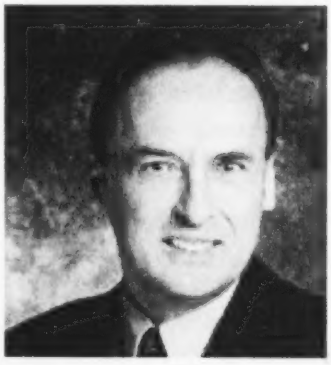
Order of MERIT

Established in 2003, the Manitoba Credit Unions Order of Merit

recognizes individuals who — whether as employees or elected officials — have demonstrated a significant commitment to the Manitoba credit union system. Each year, up to three Manitobans are selected to receive the award, based on their exemplary service to the Manitoba credit union system, the leadership they've shown in the preservation and extension of the philosophy of people helping people, and their commitment to the co-operative principles.

As part of the award, the recipient receives the honour of presenting a $500 bursary to a student in a Manitoba secondary or post-secondary educational institution and program of their choosing.

DAVE HUGHES



Dave has been with Crocus Credit Union, which nominated him for this award, for 33 years — the last 32 as General Manager. Over three decades in the system, Dave has served on four committees of CUMIS, the Manitoba Co-op Council board and CUCM's Equity Task Force and Human Resources and On-Line Advisory committees. Outside the system, Dave has volunteered or been a board/committee member on a wide variety of organizations including Westman Media Co-op, the Canada Winter Games, Big Brothers and Sisters, the Brandon Seniors' Village, the Municipal Heritage Advisory Committee, Brandon Neighbourhood Development Corporation, Downtown Brandon Improvement Association, Lions Manor, the CNIB, the Canadian Centre for Ethics in Sports, Pan Am Games, World Curling Championships and Olympic curling trials, Lions International and the Lions/Habitat for Humanity Coalition. Dave received the Brandon Mayor's Volunteer of the Year Award in Community Service Work (1999), Lions International's prestigious Melvin Jones Award (1993) and, in 2004, a Manitoba Co-op Council Distinguished Co-operator Award. Dave has asked that the $500 bursary go to a Business Administration student at Assiniboine Community College.

George Sawatzky

George Sawatzky began his career with Niverville Credit Union in 1965 and was made general manager (now CEO) in 1966. He was a member of CUCM's board from 1982 to 1990, which included four years on the executive committee. Outside the credit union system, George continues long tenures on the boards of Niverville Funeral Aid (a co-operative cemetery), the Manitoba Land Appraisal Commission, Niverville Health & Community Foundation and Niverville Senior Housing Inc. His past activities include service as the President and Secretary Treasurer of both the Niverville Co-op Curling Rink and the Niverville Chamber of Commerce, and as a board member of the Manitoba Lotteries Commission and the Co-op Loans and Loans Guarantee board. George also spent 21 years on the Church Council of St. Paul's Evangelical Lutheran Church of Steinbach — 15 as president, two as vice-president, one as treasurer and three as a deacon. That period included 15 years as a member of the Church Council for the Manitoba/Northwestern Ontario Synod of the Evangelical Lutheran Church in Canada, 12 of which he served on the executive as treasurer.

George has asked that the $500 bursary go to a student in the Faculty of Agricultural and Food Sciences at the University of Manitoba.

Irvin Wiebe

Nominated by Agassiz Credit Union, Irvin Wiebe served on the board of Morden Credit Union from 1977 to 1985 but is better known in the system as the 10-year chairman of the Credit Union Deposit Guarantee Corporation (CUDGC) of Manitoba. He was both a system and government appointee over his 13 years on the CUDGC board. Irvin served his profession as a board member and president of the Manitoba Institute of Agrologists — and was named a Fellow of the Agriculture Institute of Canada in 1993. He is currently on the Family Farm Business Advisory Board and the Morden Veterinary Services board. His commitment to his wider communities includes being the current chair of the Board of Management of the Manitoba Mennonite Brethren Church Conference, Morden Senior Citizens Home, Pembina Valley Water Co-op, Morden Corn and Apple Committee and past moderator of Westside Community Church. Irvin also serves on the Morden town council as Deputy Mayor. He has asked that the $500 bursary go to a student in the field of Farm Business Management at the University of Manitoba's Faculty of Agricultural and Food Sciences.

CREDIT UNION CENTRAL *of* MANITOBA

MANAGEMENT REPORT

The accompanying financial statements were prepared by Management, which is responsible for the integrity and objectivity of the data presented, including amounts that must necessarily be based on judgements and estimates. The financial statements were prepared in conformance with Canadian generally accepted accounting principles, and in situations where acceptable alternative accounting principles exist, Management selected the method that was thought to be most appropriate in the circumstances. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibilities for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, Management maintains the necessary system of internal controls designed to provide assurance that transactions are authorized, assets are safeguarded and proper records are maintained.

Ultimate responsibility for financial reporting to our members rests with the Board of Directors. The Audit Committee, which is appointed by the Board of Directors, meets at least twice a year to review, with Management and the appointed external auditors, the scope of the annual audit and the final audited financial statements.

The financial statements have been examined by PricewaterhouseCoopers LLP, whose report expresses their opinion with respect to the fairness of the presentation of the statements.

GARTH MANNESS
President and
Chief Executive Officer

MIKE SAFINIUK
Treasurer

PRICEWATERHOUSECOOPERS

AUDITORS' REPORT

To the Members of
Credit Union Central of Manitoba Limited

We have audited the balance sheet of **Credit Union Central of Manitoba Limited** (formerly Co-operative Credit Society of Manitoba Limited) as at December 31, 2004 and the statements of operations and reserves and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Organization as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

CHARTERED ACCOUNTANTS
Winnipeg, Canada
January 28, 2005

Balance Sheet As at December 31, 2004

in thousands of dollars	2004	2003
Assets		
Liquidity pool (note 2)	1,271,867	1,179,164
Intermediation pool (note 3)	97,606	81,445
Service related (note 4)	5,483	7,740
	1,374,956	1,268,349
Liabilities		
Members' deposits	1,280,973	1,194,687
Accounts payable	3,409	5,208
	1,284,382	1,199,895
Members' Equity		
Share capital (note 5)	87,137	65,453
Reserves	3,437	3,001
	90,574	68,454
	1,374,956	1,268,349

Approved by the Board of Directors

DIRECTOR DIRECTOR

Statement of Operations and Reserves For the year ended December 31, 2004

in thousands of dollars	2004	2003
Financial revenue		
Liquidity pool	46,572	45,582
Intermediation pool	3,005	2,853
	49,577	48,435
Cost of funds	44,162	44,523
Financial margin	5,415	3,912
Share of Celero's income	562	709
Net operating expense (note 7)	(144)	(156)
	418	553
Income before credit union patronage rebates	5,833	4,465
Credit union patronage rebates		
Financial margin	1,386	391
Distribution of Celero's income	562	709
	1,948	1,100
Income before income taxes	3,885	3,365
Provision for income taxes (note 8)	709	574
Net income for the year	3,176	2,791
Reserves — Beginning of year	3,001	2,652
	6,177	5,443
Dividends — net of related income tax savings (note 8)	(2,740)	(2,442)
Reserves — End of year	3,437	3,001

Statement of Cash Flows For the year ended December 31, 2004

in thousands of dollars	2004	2003
Cash provided by (used in)		
Operating activities		
Net income for the year	3,176	2,791
Items not affecting cash		
Depreciation and amortization	1,147	746
Provision for doubtful securities	30	—
Provision for income taxes	709	574
	5,062	4,111
Net change in receivables, prepaid expenses, inventories and accounts payable	(242)	1,417
	4,820	5,528
Investing activities		
Increase in liquidity pool securities maturing after three months	(129,827)	(189,895)
Increase in intermediation pool	(16,161)	(3,081)
Acquisition of capital assets — net of disposals	(551)	(437)
	(146,539)	(193,413)
Financing activities		
Increase in members' deposits	86,286	169,809
Increase (decrease) in share capital (note 5)	21,684	(984)
Dividends	(3,345)	(2,982)
	104,625	165,843
Decrease in cash and cash equivalents	(37,094)	(22,042)
Cash and cash equivalents — Beginning of year	424,561	446,603
Cash and cash equivalents — End of year	387,467	424,561
Cash and cash equivalents consist of		
Cash	9,523	1,437
Liquidity pool securities maturing within three months	377,944	423,124
	387,467	424,561
Liquidity pool consists of		
Cash and cash equivalents, as above	387,467	424,561
Liquidity pool securities maturing after three months	884,400	754,603
	1,271,867	1,179,164

1 Significant accounting policies

These financial statements have been prepared in accordance with the Co-operative Credit Associations Act, which requires them to be in accordance with Canadian generally accepted accounting principles, except as otherwise specified by the Superintendent of Financial Institutions Canada (the "Superintendent"). No such specifications have been made by the Superintendent, and the significant accounting policies used in the preparation of these financial statements are summarized below.

VALUATION

a. Liquidity pool

These investments are carried at cost or amortized cost.

To enhance yield, the Organization engages in the back to back sale and purchase of matched, portfolio investments. Gains and losses on the disposition of investments are deferred and amortized to income over the lesser of the remaining term to maturity of the original investment or the replacement investment. In undertaking these transactions, there is no material difference in the term to maturity of the original and replacement investments.

The Organization engages in the simultaneous purchase and sale of non portfolio investments. The gain on these transactions is recognized as income at the time of settlement.

Losses resulting from the disposition of liquidity pool investments that are undertaken as a result of significant deterioration in the credit worthiness of the investee are recognized immediately.

b. Intermediation pool and service related

Other than as noted below, these investments are carried at cost or amortized cost.

Mutual fund seed capital

The Organization provides seed capital to a related organization for the creation of mutual funds. These investments are temporary as policy requires withdrawal of the seed capital once the mutual funds achieve the required level of regulatory capital. Accordingly, these investments are carried at market value.

Equity accounting

Investments over which the Organization has significant influence are accounted for using the equity method. Under this method, the Organization accounts for its share of the net earnings (loss) of the investment. The book value of the investment is adjusted for the share of earnings and distributions received from the investee. Investments are written down to recognize losses in the value of the investment that are other than temporary.

Celero Solutions ("Celero") is an unincorporated venture that provides information technology services to the venture participants (owners), credit unions and other organizations. Pursuant to the venture agreement, the Organization has a 25.3% ownership interest in Celero which in turn has a 49% ownership interest in Everlink Payment Services Inc., an incorporated entity that provides electronic switching services.

The Organization's share of Celero's operating income or loss is based upon the business lines that it contributed to the venture and its ownership interest in operating results that are not directly related to the business lines.

Member credit unions that receive services through Celero are the beneficial owners of the Organization's interest therein. Accordingly, the Organization records an offsetting expense and an amount distributable to member credit unions equal to its share of Celero's operating income. Conversely, should Celero incur a loss from operations, the Organization records offsetting revenue and an amount recoverable from members.

c. Accrued interest

Accrued interest receivable or payable is included with the corresponding principal balance.

DERIVATIVE FINANCIAL INSTRUMENTS

a. Interest rate swap agreements

The Organization enters into interest rate swap agreements ("swaps" or "hedging items") in order to manage its exposure to changes in interest rates. Swaps are designated as hedges of the underlying related assets and liabilities (the "hedged item"). The hedging and hedged items are collectively designated as hedged transactions, the effectiveness of which is assessed periodically.

In the event that a hedged item is disposed of, or the hedging relationship ceases to be effective, and the Organization continues to hold the hedging item, its fair value is determined. The resulting unrealized gain or loss is recognized in earnings in the same period as that of the hedged item. Over the period to its maturity, subsequent changes in the fair value of the hedging item are recognized in earnings as they arise.

In the event that a hedging item is disposed of, the resulting realized gain or loss is recognized in earnings in the same period as that of the hedged item.

b. Foreign exchange forward rate agreements

The Organization enters into foreign exchange forward rate agreements in order to manage its exposure to changes in foreign exchange rates. These agreements are marked to market at the financial reporting date.

DEPRECIATION AND AMORTIZATION

Depreciation and amortization are recorded annually by the Organization at rates and on bases determined to charge the cost of capital assets over their estimated useful lives using the straight-line method as follows:

Technology and equipment	3 to 5 years
Furniture	5 to 10 years
Leasehold improvements	remaining term of the lease

INCOME TAXES

The Organization follows the liability method of accounting for income taxes. Under the liability method, future income taxes result from temporary differences between the tax bases of assets and liabilities and their carrying amounts in the balance sheet. The future income tax asset is computed at the tax rates that are expected to apply when the assets and liabilities are ultimately settled.

USE OF ESTIMATES

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from such estimates.

2 Liquidity Pool

in thousands of dollars	2004	2003
Cash	9,523	1,437
Securities		
Governments	70,276	81,653
Banks and trust companies	778,890	687,049
Corporate	414,178	409,922
Non-specific provision for doubtful securities	(1,000)	(897)
	1,271,867	1,179,164

The Organization serves as a source of liquidity for member credit unions. As such, all of the assets in the liquidity pool are readily convertible into cash.

3 Intermediation pool

in thousands of dollars	2004	2003
Member loans and investments		
Credit unions	80,904	64,899
Co-operatives	2,721	2,439
Shares		
Credit Union Central of Canada	3,327	3,279
Co-operatives	4,633	4,493
Mortgage and loan investments	1,017	1,048
Investment in Celero		
Loans receivable	4,442	4,578
Share of undistributed income	562	709
	97,606	81,445

4 Service related assets

in thousands of dollars	2004	2003
Technology, equipment, furniture and leasehold improvements	6,553	9,995
Accumulated depreciation and amortization	(2,765)	(5,611)
	3,788	4,384
Receivables	944	2,606
Prepaid expenses and inventories	566	461
Future income taxes (note 8)	185	289
	5,483	7,740

Depreciation and amortization recorded during the year was $1,147,000 (2003 — $746,000).

5 Share capital

AUTHORIZED

Share capital consists of an unlimited number of Class I and II shares, to be issued at $5 each.

MEMBERSHIP

Every member of the Organization is required to own a minimum of two Class I shares.

Pursuant to the Organization's by-laws, Manitoba credit unions maintain investments in both classes of shares proportionate to their statutory (Class I) and excess (Class II) liquidity deposits held by the Organization.

RIGHTS AND PRIVILEGES

At the discretion of the Organization's Directors, dividends may be declared and paid to either or both classes of shares. On any return of capital, the holders of Class II shares have a preferential claim on the Organization's assets.

ISSUED AND OUTSTANDING

in thousands of dollars	2004	2003
Class I		
Manitoba credit unions	33,600	28,888
Co-operatives	1,237	1,237
Class II		
Manitoba credit unions	52,300	35,328
	87,137	65,453

During the year, $4,712,000 (2003 — $3,188,000) of Class I shares and $20,058,000 (2003 — $228,000) of Class II shares were issued for cash consideration, and $3,086,000 (2003 — $4,400,000) of Class II shares were redeemed.

6 Related party transactions

a. SERVICE RELATED TRANSACTIONS

The Organization and Celero provide various services to each other. During the year, the Organization's charges to Celero aggregated $1,560,000 (2003 — $1,738,000) and Celero's charges to the Organization aggregated $208,000 (2003 — $212,000). The net recovery from Celero of $1,352,000 (2003 — $1,526,000) is included in net operating expense (note 7).

Accounts payable include $46,000 due to Celero (2003 — accounts receivable of $444,000).

b. INVESTMENT RELATED TRANSACTIONS

Accounts payable include amounts distributable to members with respect to their share of Celero's income of $596,000 (2003 — $134,000).

Interest charges to Celero were $178,000 (2003 — $152,000) for the year.

7 Net operating expense

in thousands of dollars	2004	2003
Recoveries from members		
Clearing fees and other financial charges	5,491	4,890
Basic assessment	3,384	3,234
Fee for service	1,989	1,659
Liquidity management assessment	615	537
Printing and supplies — net of cost of $1,073 (2003 — $1,186)	338	349
The Credit Union Deposit Guarantee Corporation fees	187	202
	12,004	10,871
Operating expenses		
Personnel	6,450	6,395
Depreciation, amortization and leasing	1,293	877
National shared costs	1,258	1,023
Occupancy	875	867
Settlement costs	846	778
Professional services	594	482
Co-operative democracy	393	378
Hardware and software maintenance	385	357
Printing and supplies	335	308
General	303	302
Travel	231	196
Dues, grants and memberships	163	150
Telephone and computer telecommunications	140	146
Insurance and bonding	95	93
Postage and delivery	93	118
Provision for doubtful securities	30	—
Financing costs	16	83
Net recovery from Celero	(1,352)	(1,526)
	12,148	11,027
Net operating expense	(144)	(156)

8 Provision for income taxes

The Organization provides for income taxes at a rate of 18.1% (2003 — 18.1%) as determined below:

shown as %	2004	2003
Federal base rate	38.0	38.0
Federal abatement	(10.0)	(10.0)
Additional deduction for credit unions	(16.0)	(16.0)
Federal surtax	1.1	1.1
Net federal tax rate	13.1	13.1
Provincial tax rate	5.0	5.0
	18.1	18.1

The Organization provides for income taxes using the above rates as follows:

in thousands of dollars	2004	2003
Income before income taxes	3,885	3,365
Non-taxable items		
Dividends on Co-operative shares	(262)	(268)
All other adjustments	162	174
Accounting income for tax purposes	3,785	3,271

in thousands of dollars	2004	2003
Expected provision for income taxes at statutory rates	685	592
Other adjustments — net	24	(18)
Provision for income taxes on accounting income for tax purposes	709	574
Income tax savings on the payment of dividends	(605)	(540)
Provision for future income taxes	104	34

Dividends charged against Reserves are net of the foregoing related income tax savings of $605,000 (2003 — $540,000).

The significant components of the future tax asset in the balance sheet are:

in thousands of dollars	2004	2003
Non-capital losses carried forward	284	286
Temporary differences between the net book value of certain expenditures for accounting purposes and tax purposes	(311)	(211)
Non-specific provision for doubtful securities	181	163
Provisions for expenditure not deductible for income tax purposes until paid	31	51
	185	289

9 Directors' expenses

Directors received remuneration of $138,000 (2003 — $136,000) and expense reimbursement of $26,000 (2003 — $33,000).

10 Commitments

The Organization currently leases office space under a lease agreement which expires in 2005 and has remaining payments of $518,000. During the year, the Organization signed a 10 year lease agreement for new office space which commences in 2005 and provides for an average annual payment of approximately $1,061,000.

11 Guarantees

The Organization has agreed to indemnify its current and former directors and officers to the extent permitted by law against any and all charges, costs, expenses, amounts paid in settlement and damages incurred by the directors and officers as a result of any lawsuit or any other judicial administrative or investigative proceeding in which the directors and officers are sued as a result of their service. These indemnification claims will be subject to any statutory or other legal limitation period. The nature of such indemnification prevents the Organization from making a reasonable estimate of the maximum potential amount it could be required to pay to counter parties. The Organization maintains liability insurance coverage for directors and officers.

12 Asset/Liability Management

The Organization has established policies and related reporting to manage its exposure to fluctuating interest rates (referred to as interest rate risk) and to movements in foreign exchange rates (referred to as foreign exchange risk). In the absence of these policies, the Organization's earnings would be impacted, either positively or negatively, as interest and exchange rates change. Additionally, the Organization is potentially exposed to financial loss resulting from the failure of a counter party to fully honour its financial or contractual obligations (referred to as credit risk).

The Organization also acts as an intermediary for its members in the management of interest rate risk and foreign exchange risk.

a. INTEREST RATE RISK

One of the major sources of income for the Organization is financial margin, the difference between interest earned on investments and member loans and interest paid on member deposits.

The objective of "interest rate sensitivity" management is to match interest-sensitive assets with interest-sensitive liabilities as to amount and as to the term to their interest rate repricing dates, thus minimizing fluctuations of income during periods of changing interest rates. The following summarized schedule shows the Organization's sensitivity to interest rate changes:

in thousands of dollars

Interest repricing period	Interest sensitive	Not interest sensitive	Swaps		Net asset/liability mis-match
			Receiving	Paying	
0 to 6 months	(204,002)	(16,011)	370,618	(147,577)	3,028
6 to 12 months	23,571	(8,298)	5,400	(23,022)	(2,349)
1 to 2 years	26,181	(18,250)	—	(8,351)	(420)
2 to 3 years	152,015	(11,565)	—	(142,462)	(2,012)
3 to 4 years	68,909	(24,041)	—	(43,128)	1,740
4 to 5 years	21,121	(9,630)	—	(11,478)	13
	87,795	(87,795)	376,018	(376,018)	—

The average interest rate for interest-bearing assets is 3.67% and for interest-bearing liabilities is 3.37%.

A significant amount of investments and deposits can be sold or redeemed before maturity, but no adjustment has been made for sales or redemptions that may occur. Amounts that are not interest sensitive have been categorized in repricing periods that correspond to the Organization's asset/liability deployment policies and investment strategies.

A positive asset/liability mis-match for a given interest repricing period (period gap) indicates that a rise in interest rates would increase the Organization's financial margin effective with that period while a fall in interest rates would decrease the financial margin. If the period gap for a given repricing period is negative, then an increase or decrease would have the opposite effect from a positive gap. The Organization has established a policy to limit the mis-match in each period to prevent significant financial margin fluctuations.

The Organization enters into interest rate swap agreements (swaps) for the purpose of managing interest rate risk, the notional amounts of which are reflected in the table above. A swap is a contractual agreement between the Organization and a counter party involving the exchange of fixed rate and floating rate payments structured in a manner to reduce the extent of the Organization's interest rate risk to a level which management believes is reasonable. The Organization does not enter into swaps for speculative purposes.

Additionally, the Organization, in its role as a financial intermediary, has entered into interest rate swap agreements, and index-linked swap agreements, on behalf of its member credit unions. The credit risk associated with the interest rate swap agreements is the responsibility of the credit unions. The credit risk associated with the index-linked swap agreements is the responsibility of the Organization.

b. FOREIGN EXCHANGE RISK

The Organization has assets and liabilities denominated in U.S. dollars. The Organization has established a policy to limit its exposure to changes in the U.S. exchange rate to prevent significant financial margin fluctuations.

The Organization enters into foreign exchange forward rate agreements for the purpose of ensuring that its policy limitation is not exceeded and to provide a financial intermediary role for credit unions. A foreign exchange forward rate agreement is a contractual arrangement between the Organization and a counter party involving the commitment of a purchase or sale of U.S. dollar funds to settle on a future date at a predetermined exchange rate. The Organization does not enter into forward rate agreements for speculative purposes.

As at December 31, 2004, the Organization has entered into foreign exchange forward rate agreements to buy U.S. dollars aggregating U.S. $11,691,000 and to sell U.S. dollars aggregating U.S. $14,600,000, inclusive of transactions with credit unions. The credit risk associated with these agreements is the responsibility of the Organization.

c. CREDIT RISK

The Organization's exposure to credit risk, represented by the cost to replace interest rate swap agreements, index linked swap agreements and foreign exchange forward rate agreements in the event of the failure of a counter party, is $734,000 as at December 31, 2004. The counter party for all such agreements is restricted to the major chartered banks and member credit unions, and therefore management considers the Organization's credit risk to be negligible.

13 Fair values of financial assets and liabilities

The following table presents the fair values of all financial assets and liabilities of the Organization. Differences between book value and fair value are caused by differences between the interest rate obtained at the time of the original investment or deposit and the current rate for the same product. Investments and deposits that are priced with variable rates have a fair value equal to book value, as they are priced at current interest rates.

While fair value amounts are designed to represent estimates of the amounts at which assets and liabilities could be exchanged in current transactions between willing parties, the Organization normally holds all of its fixed term investments and deposits to their maturity date. Consequently, the fair values presented are estimates derived by taking into account changes in the market interest rates, and may not be indicative of net realizable value.

The excess of the fair value of assets over book values represents an unrealized gain to the Organization. The excess of the fair value of liabilities and off balance sheet financial instruments over book values represents an unrealized loss to the Organization.

in thousands of dollars	Book value	Fair value	Fair value greater than book value
Assets			
Liquidity pool	1,271,867	1,292,276	20,409
Intermediation pool	97,606	98,208	602
Liabilities			
Member deposits	1,280,973	1,293,310	12,337
Off balance sheet financial instruments			
Net swap agreements	—	7,648	7,648

14 Comparative figures

Certain comparative amounts have been reclassified to conform with the current year's presentation.

Dedicated to serving Manitoba

The strength of the Manitoba credit union system is people. Please join us in congratulating these individuals who have worked and volunteered to make their credit unions and the system what they are today.

Forty years

Stan Scarr President, Winnipeg Police Credit Union

Thirty-five years

Don Angus Assistant General Manager, Virden Credit Union
Ernie Froese I/T Coordinator, Heartland Credit Union
Jacob Redekop President, Niverville Credit Union
Tina Unger Custodian, Niverville Credit Union

Thirty years

Angila Buchanan Finance Manager, Austin Credit Union
Louise Chetyrbok Branch Manager, Eriksdale Credit Union
Ella Green Recording Secretary, Tiger Hills Credit Union
Henry E. (Hank) Hildebrand COO, Agassiz Credit Union
Michelle Houssin Mgr, I/T & Business Solutions, Transcona CU
Dennis Korzeniowski Asst Manager, Grandview Credit Union
Debbie Norton Loans Officer/Office Supervisor, Turtle Mountain
Marcel Rainville Director Commercial Lending, Vantis Credit Union
Rita Ramchandar Mgr Payment Services, Assiniboine Credit Union
Norman Rimmer Director, Winnipeg Police Credit Union
Marianne Shewchuk Proof Clerk, Credit Union Central of Manitoba
Rodney Stuart General Manager, Virden Credit Union
Margie Taylor Internal Auditor, Vanguard Credit Union
Michael Taylor General Manager, Winnipeg Police Credit Union
Richard Ward Loans Officer, Virden Credit Union

Crosstown, Portage and Strathclair credit unions celebrated their 60th anniversaries in 2004

Twenty-five years

Tony Aiello Branch Manager, Astra Credit Union
Irma Albright Asst Branch Mgr/Loan Officer III, Crosstown CU
Doug Atkins Loans Manager, Crocus Credit Union
Shirley Bauch Member Service Rep, Eriksdale Credit Union
Neal Boyce Office Manager, Crocus Credit Union
Coleen Bryson Loan Officer III, Westoba Credit Union
Rae Carlson Manager, Loans, Astra Credit Union
Randy Cullen Asst VP / Branch Manager, Astra Credit Union
Susan Davy Assiniboine Financial Group, Assiniboine Credit Union
Doris Dyck Deposits Administrator, Civic Credit Union
Brenda Ellis-Anderson Branch Manager, Virden Credit Union
Patricia Furgala Loan & Investment Clerk, Riverton Credit Union
Elaine Gibbins Clearing Clerk, Virden Credit Union
Sherry Hagemier Branch Manager, Eriksdale Credit Union
Marian Hesse Loan Officer II, Westoba Credit Union
Maureen Johnson Assistant Manager, Riverton Credit Union
Robert Jones Chief Executive Officer, Heartland Credit Union
Sharon Larsen Senior Member Service Rep, Erickson Credit Union
Brenda Martin Administration Supervisor, Grandview Credit Union
Dennis Matthies General Manager, Lowe Farm Credit Union
Cathie McFarlane Manager of Finance, Heartland Credit Union
Brian McLarty Assistant Manager, Civic Credit Union
Dave McLelland Board President, Eriksdale Credit Union
Lori McNabb Senior Loans Officer, Minnedosa Credit Union
Donna Praymayer Branch Manager, Community Credit Union
Cecil Rawluk Branch Manager, Eriksdale Credit Union
Bev Ruston Office Manager, Cypress River Credit Union
Christine Sackrison Senior Member Service Rep, Civic Credit Union
Dale Scott General Manager, Roblin Credit Union
Barbara Vanrobaeys Manager, Operations, Astra Credit Union
Deb Watt Loans Officer, Virden Credit Union
Juliette Wedensky Administrative Supervisor, Eriksdale Credit Union
Gary Williams Chairperson, Hartney Credit Union

Credit Union Central of Manitoba Limited
Incorporated in 1950 by Statute of
the Province of Manitoba, Canada.

CREDIT SOCIETY / AGENT BANK
Credit Union Central of Canada
Bank of Nova Scotia

EXTERNAL AUDITORS
PricewaterhouseCoopers LLP

SOLICITORS
PITBLADO LLP

CONSULTING ECONOMISTS
Dr. Norm Cameron
Dr. John Loxley
Dr. Brian Oleson

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